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1971
annual
REPORT



**OIL
PATCH**

EQUIPMENT SALES AND RENTAL LTD.



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**OIL PATCH
EQUIPMENT SALES & RENTAL LTD.**

**ANNUAL REPORT
SEPTEMBER, 1971**

Directors

Perry S. Bower	Winnipeg, Manitoba
Donald L. Chandler	Edmonton, Alberta
Lloyd C. Garries	Edmonton, Alberta
Maclean E. Jones, Q.C.	Calgary, Alberta
Barron Kidd	Dallas, Texas
Barron U. Kidd	Dallas, Texas
V.J. (Tip) Moroney	Calgary, Alberta

Officers

President, Chief Executive	
Officer	Donald L. Chandler
Vice-President	Lloyd C. Garries
Treasurer, Chief Financial	
Officer	Barron Kidd
Secretary	Barron U. Kidd
Assistant Secretary-	
Treasurer	Eugene W. Eumchuk

Offices

5105 - 75 Street, Edmonton, Alberta

Transfer Agent & Registrar

Guaranty Trust Company of Canada, Vancouver,
Calgary, Regina, Winnipeg, Toronto, Montreal

Bank

Royal Bank of Canada

Auditors

Riddell, Stead & Co., Edmonton, Alberta

Annual Meeting

January 27th, 1972 at 11:00 o'clock.
Company Offices
Edmonton, Alberta

At the following annual report of
per 30, 1971 together with the
ted November 9, 1971.

exploration in Canada for 1971
This decline occurred in footage
active rigs. As pointed out in
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shop as well as adding to our

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Arctic and offshore East Coast

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y Spring 1972.

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resale was lower because of
more selective, a better return

To The Shareholders

The Board of Directors is pleased to submit the following annual report of the Company for the year ended September 30, 1971 together with the financial statements and auditor's report dated November 9, 1971.

As it did in 1970, activity in oil and gas exploration in Canada for 1971 declined as compared to the previous year. This decline occurred in footage drilled, number of wells and number of active rigs. As pointed out in our six month interim statement we did not anticipate the drop, which began in February, 1971, in our revenue until we had committed ourselves to completing the machine and fabrication shop as well as adding to our rental equipment in November, 1970.

Although we were able to reduce our variable costs for the last nine months of the year, it was more than offset by the cumulative effect of lower revenues and a 46% increase in depreciation charges. This effect could continue if drilling activity remains at a low level. Therefore your directors are looking to increased demand for oil and gas in the United States and Canada, as well as the possibility of a significant discovery both in the Canadian Arctic and Offshore East Coast. All of these could have a dramatic effect on the drilling activity.

Operations

(1) Rental Division

Approximately \$500,000 worth of equipment was added to this division before the sharp drop in rental revenue forced us to reconsider our expansionary policy. Since our most serious competition has been in Alberta we have decided to further expand in the Arctic and offshore East Coast areas.

In this regard, we are proceeding with opening an office in Nova Scotia and should have equipment in Inuvik, N.W.T. by Spring 1972.

(2) Sales Division

This division's revenue remained at approximately the same level as in 1970, with the profit showing improvement. The number of auction sales attended and purchase of equipment for resale was lower because of slower sales over prior years, but by being more selective, a better return was achieved.

(3) Machining and Fabrication Division

Completion of the construction of our plant and final installation of the equipment was not done until March of this year, taking six months longer than originally anticipated. This together with the costs of setting up an entirely new division and occurring at a time when our market, the oil-field exploration industry, was at a low level gave us a loss for this division. However, we feel that this picture will change in 1972. During the last six months our profit margin showed improvement. Also we are actively soliciting work from non-oilfield customers such as construction and crane companies. Favorable results have already been obtained.

(4) General

Oil Patch's financial position remains very favorable, with almost no long term debt. We have the equipment, personnel and knowledge to handle at least twice our present volume and therefore to participate dramatically in any rejuvenation of activity in any area in Canada.

The question to us is not whether the Canadian oil industry will pick up, but when.

Donald L. Chandler

President and Chief Executive Officer

December 23, 1971.

OIL PATCH EQUIPMENT SALES & RENTAL LTD.
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 1971

	<u>1971</u>	<u>1970</u>
REVENUE	<u>\$2,278,767</u>	<u>\$2,897,527</u>
EXPENSES		
Cost of sales and other expenses	1,803,993	2,148,828
Interest on long-term debt	9,776	10,074
Depreciation	<u>448,328</u>	<u>307,526</u>
	<u>2,262,097</u>	<u>2,466,428</u>
Operating profit	<u>16,670</u>	<u>431,099</u>
INCOME TAXES		
Current (Refundable)	(34,865)	71,274
Deferred	<u>38,635</u>	<u>125,673</u>
	<u>3,770</u>	<u>196,947</u>
NET EARNINGS	12,900	234,152
Retained earnings at beginning of year	<u>879,069</u>	<u>644,917</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 891,969</u>	<u>\$ 879,069</u>
NET EARNINGS PER SHARE (Note 3)	<u>1c</u>	<u>28c</u>

OIL PATCH EQUIPMENT
BALANCE SHEET AS

ASSETS

	<u>1971</u>	<u>1970</u>
CURRENT ASSETS		
Cash	\$ 6,067	\$ 57,741
Accounts receivable	598,004	566,844
Income tax refundable	45,139	10,274
Inventory, at the lower of cost and net realizable value	726,569	654,830
Prepaid expenses	34,484	12,758
	<u>1,410,263</u>	<u>1,302,447</u>
 7 1/4 % SECOND MORTGAGE, due from the president	 <u>7,724</u>	 <u>24,731</u>
PROPERTY AND EQUIPMENT (Note 1)	3,618,882	2,883,505
Accumulated depreciation	<u>1,368,047</u>	<u>1,001,029</u>
	<u>2,250,835</u>	<u>1,882,476</u>
 Signed on behalf of the Board		
 Director		
 Director		
	<u>\$3,668,822</u>	<u>\$3,209,654</u>

LES & RENTAL LTD.
 SEPTEMBER 30, 1971

LIABILITIES

	<u>1971</u>	<u>1970</u>
CURRENT LIABILITIES		
Bank indebtedness, secured	\$ 350,000	\$ —
Accounts payable and accrued liabilities	367,107	305,030
Current maturities on long-term debt	<u>4,540</u>	<u>4,245</u>
	<u>721,647</u>	<u>309,275</u>
LONG-TERM DEBT (Note 2)	<u>175,732</u>	<u>180,471</u>
DEFERRED INCOME TAXES	<u>264,488</u>	<u>225,853</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 3)		
Authorized		
2,000,000 shares of no par value		
Issued		
912,036 shares	1,614,986	1,614,986
RETAINED EARNINGS	<u>891,969</u>	<u>879,069</u>
	<u>2,506,955</u>	<u>2,494,055</u>
	<u>\$3,668,822</u>	<u>\$3,209,654</u>

OIL PATCH EQUIPMENT SALES & RENTAL LTD.
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 1971

	<u>1971</u>	<u>1970</u>
SOURCE OF FUNDS		
Net earnings	\$ 12,900	\$ 234,152
Non-cash charges		
Depreciation	448,328	307,526
Deferred income taxes	<u>38,635</u>	<u>125,673</u>
Funds provided by operations	499,863	667,351
Sale of fixed assets	178,460	230,937
Payment on 7¼ % second mortgage	17,007	3,269
Issue of capital stock	<u>-</u>	<u>1,614,878</u>
	<u>695,330</u>	<u>2,516,435</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	995,147	1,383,116
Reduction of long-term debt	<u>4,739</u>	<u>4,563</u>
	<u>999,886</u>	<u>1,387,679</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(304,556)	1,128,756
Working capital (deficit) at beginning of year	<u>993,172</u>	<u>(135,584)</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 688,616</u>	<u>\$ 993,172</u>

OIL PATCH EQUIPMENT SALES & RENTAL LTD.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1971

1. PROPERTY AND EQUIPMENT

Property and equipment comprise the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>1970 Net</u>
Land and improvements	\$ 60,411	\$ 17,122	\$ 43,289	\$ 43,742
Buildings	638,212	78,846	559,366	372,694
Rental equipment	2,378,595	1,041,878	1,336,717	1,207,892
Automotive equipment	163,210	109,371	53,839	67,423
Shop equipment, furniture and fixtures	378,454	120,830	257,624	190,725
	<u>\$3,618,882</u>	<u>\$1,368,047</u>	<u>\$2,250,835</u>	<u>\$1,882,476</u>

Depreciation has been provided in the accounts on the straight-line method based on the estimated useful asset life.

2. LONG-TERM DEBT

Long-term debt consists of:

	<u>1971</u>	<u>1970</u>
7½ % Mortgage on land, repayable in monthly instalments of \$1,166 including interest	\$ 130,039	\$ 134,254
Agreement to purchase, secured by specific rental equipment and re- payable from proceeds of rental or sale of said equipment	50,233	50,462
	180,272	184,716
Less current maturities	4,540	4,245
	<u>\$ 175,732</u>	<u>\$ 180,471</u>

3. CAPITAL STOCK

The Company has reserved 50,000 shares under its stock option plan for directors, senior officers and certain key employees. At September 30, 1971 options had been granted with respect to 20,400 shares exercisable on or before December 4, 1974 at a price of \$5.40 per share. The issuance of these shares will have no dilutive effect on earnings per share.

4. STATUTORY INFORMATION

Remuneration paid during the year to directors and senior officers of the company totalled \$103,906 (1970 - \$179,427).

5. COMMITMENTS

Until 1974 the company has a commitment to pay building and equipment lease rental of \$23,000 annually.

Riddell, Stead & Co.

CHARTERED ACCOUNTANTS 10117 Jasper Avenue, Edmonton 15, Alberta

AUDITORS' REPORT

To The Shareholders
Oil Patch Equipment Sales & Rental Ltd.

We have examined the balance sheet of Oil Patch Equipment Sales & Rental Ltd. as at September 30, 1971 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at September 30, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead & Co.

November 9, 1971

